

STATE ALLOCATION BOARD
IMPLEMENTATION COMMITTEE MEETING
September 9, 2010

CONSTRUCTION COST INDEX

PURPOSE OF REPORT

To continue discussions on the annual adjustment to the School Facility Program (SFP) grant apportionments based on the change in the statewide Class B Construction Cost Index (CCI).

BACKGROUND

At the August 2010 Implementation Committee Meeting (IMP), Staff presented a report providing additional history on the CCI. The report described the definitions and the use of both Class B and Class D indices when the Lease Purchase Program (LPP) was in effect. In 1998 when Senate Bill 50 created the School Facility Program it required the State Allocation Board (SAB) to use the annual percent change in the Class B index exclusively to adjust the pupil grant amounts provided for modernization and new construction projects. Since 1998, the SAB has either adopted Marshall & Swift (M&S) 10 Western States or 8 CA Cities because they were the only Class B indices available.

After hearing presentations at the June and August IMP meetings from representatives from Lee Saylor Index (LSI) and M&S, and reviewing the materials provided by Engineering News-Record (ENR), the Committee determined that the M&S and LSI indices most closely aligned with California construction.

Staff has included previous discussion items that were presented at the June and August IMP committee meetings as a reference on questions that were addressed, as shown in Attachment C. Additionally, on Attachment D are the components used to develop the indices published by M&S, LSI, and ENR, such as; the materials, labor, and study cities.

Customized Index

The Committee further discussed from the June and August IMP committee meetings, the development of a customized index specific for school construction and the next steps to develop such an index. The Chair asked that Committee Members draft methodologies for a customized index for future discussion. Additional questions were raised for M&S and LSI concerning the proposed index and the answers provided by each company are indicated on Attachments A (LSI) and B (M&S).

Cost Estimates vs. CCI

At the June and August IMP committee meetings, the committee asked for clarification on the use of the *2010 Saylor Publications Current Construction Costs* to evaluate cost estimates by the OPSC Plan Verification Team (PVT). LSI was retained to conduct a study to provide a list of square foot school facility costs and was approved by the SAB in September 1987. Since the study was conducted the OPSC PVT has used the *Saylor Publications Current Construction Costs* to evaluate cost estimates.

For further clarification, LSI has two separate publications; one is the *2010 Saylor Publications Current Construction Costs* and the other is the CCI. The LSI CCI is based on the construction cost market value, and the *2010 Saylor Publications Current Construction Costs* is a specific resource that portrays construction costs for preparation of conceptual, schematic, preliminary and final estimates for architects, engineers, estimators in all trades, as well as, general building and engineering contractor estimators.

M&S does not have a publication available for use by PVT to evaluate cost estimates that would facilitate line item costs/breakdowns. M&S publishes the CCI that is based on the construction cost market value.

DISCUSSION

At the March 2010 SAB meeting the direction of the Board asked Staff to examine the various indices available and discuss those options at an IMP meeting. Staff has the following options for the Committee to review based on the information and data collected for adoption within statute. Additionally, Staff has provided future options for proposed legislative changes.

What index can be adopted for the 2011 CCI adjustment?

EC Section 17072.10(b) states, "The Board shall annually adjust the per unhoused-pupil apportionment to reflect construction cost changes, as set forth in the statewide cost index for class B construction as determined by the Board."

Current Options:

Adopt one of the following Class B indices; M&S 8 CA Cities, 10 Western States*, or LSI.

Future Options:

Legislative change to redefine "Class B" based upon the confines of school construction; or adopt a Class B customized index by either M&S or LSI.

Does the SAB want a customized index?

Current Options:

Adopt a customized index that is a Class B index; both M&S and LSI stated the customized index can be classified as a Class B index.

Can the Board adjust the CCI more than once a year?

EC Section 17072.10(b) which states, "The Board shall annually adjust the per un-housed pupil apportionment to reflect construction cost changes, as set forth in the statewide cost index for class B Construction as determined by the Board."

Current Options:

Staff received a legal opinion that the board can only make this adjustment annually, to mean only once in a 12 month or 365 day period.

Future Options:

Legislative change to allow a CCI adjustment at the Board's discretion. Several IMP members proposed a CCI adjustment multiple times a year.

At this time, Staff would like to seek further input from the Committee members and stakeholders on the updated information of the Construction Cost Indices.

*However, concern has been expressed that M&S 10 Western States does not meet the standards within Statute.

AUTHORITY

New Construction

EC Section 17072.10(b) states, "The Board shall annually adjust the per unhoused- pupil apportionment to reflect construction cost changes, as set forth in the statewide cost index for class B construction as determined by the Board."

SFP Regulations Section 1859.71 states, "The new construction per-unhoused-pupil grant amount, as provided by Education Code Section 17072.10(a), will be adjusted annually based on the change in the Class B Construction Cost Index as approved by the Board each January."

Modernization

EC Section 17074.10(b) states, "The Board shall annually adjust the factors set forth in subdivision (a) according to the adjustment for inflation set forth in the statewide cost index for class B construction, as determined by the board."

SFP Regulation Section 1859.78 states, "The modernization per-unhoused-pupil grant amount, as provided by Education Code Section 17074.10(a), will be adjusted annually based on the change in the Class B Construction Cost Index as approved by the Board each January."

SFP Regulation Section 1859.2 defines "Class B Construction Cost Index" as a construction factor index for structures made of reinforced concrete or steel frames, concrete floors, and roofs, and accepted and used by the Board.